

**ILLINOIS
COMMERCE COMMISSION**

**ANNUAL REPORT
ON TELECOMMUNICATIONS**

1999

January 31, 2000

The Honorable George Ryan
Governor, State of Illinois
State Capitol, Springfield, Illinois

Chairman and Members, Joint Committee on Legislative Support Service
313 State Capitol, Springfield, Illinois

Dear Governor, Chairman and Members of the Joint Committee:

We are pleased to submit to you the Commission's 1999 Annual Report on Telecommunications. This Report covers the period of January 1, 1999, through December 31, 1999.

The Annual Report is submitted in compliance with the Public Utilities Act and specifically addresses the items cited in Section 13-801 of that Act.

Sincerely,

Richard L. Mathias, Chairman

Ruth K. Kretschmer, Commissioner

Richard E. Kolhauser, Commissioner

Terry S. Harvill, Commissioner

Edward C. Hurley, Commissioner

THE MEMBERS OF THE ILLINOIS COMMERCE COMMISSION

Richard L. Mathias, Chairman

Independent: born, 1939; Denison University, (B.A.); University of Michigan Law School (juris doctor); administrative assistant and deputy legal counsel to Gov. Richard Ogilvie; director of the Illinois Department of Insurance (1977-1979); legal or executive positions in insurance, financial services and steel making firms; private law practice in Chicago, specializing in general corporate and state and local tax matters; assumed chairmanship May 26, 1998; current term ends January 2002; married, three adult children.

Ruth K. Kretschmer

Republican; appointed to the Commission in 1983; current term ends January 2003. Kretschmer serves as Chairman of the Commission's Gas Policy Committee and is a member of the Commission's Electric and Transportation Committees. She is Chairman of the National Association of Regulatory Utility Commissioners (NARUC) Committee on Gas and serves as a member of the Advisory Council of the Center for Public Utilities, New Mexico State University. She is a member of the Mid-America Regulatory Conference and served as President from June 1995 to June 1996.

Kretschmer served on the Board of Directors for the Center for Regulatory Studies at Illinois State University from 1985 through 1996. In January 1989, she was appointed to the Advisory Council of the Gas Research Institute and chaired the Council in 1995 and 1996. She also served on the Department of Transportation's Technical Pipeline Safety Standards Committee.

Kretschmer holds a degree from DePaul University in business administration and economics; she also attended Harvard University's John F. Kennedy School of Government and completed its Program for Senior Executives in State and Local Government. She is a member of the Economic Club of Chicago and The Chicago Network. She was selected as an honored member of Who's Who in Government Services for 1990.

Richard E. Kolhauser

Republican; born 1942; Northwestern University (B.A. Political Science); Southern Illinois University, Carbondale, (M.S. Economics); Assistant to the President, Precision Products, Inc. (1992-1994); Visiting Research Professor, Sangamon State University Institute of Public Affairs (1989-1992); Deputy Director, Illinois Bureau of the Budget (1977-1989); Financial Advisor, Office of the Comptroller (1973-1976); Chief of Fiscal Analysis, Bureau of the Budget (1970-1973); assumed Commissionership April 18, 1994; current term ends January 2000; married, one child.

Terry S. Harvill

Republican; born, 1969; Illinois State University (B.S. Economics); Illinois State University (M.S. Economics); currently completing coursework towards a Ph.D. in Economics at the University of Illinois at Chicago.

Harvill was assistant to the Governor for business and economic development issues (1995-1998); in this capacity, he was responsible for the development of the Governor's overall economic development strategy and issue development in the following areas: business development, regulatory operations, governmental operations, financial affairs and Chicago-related policy matters. In addition, he provided legislative analysis and guidance to the Governor on a wide variety of issues associated with business and economic development and regulatory operations. He was responsible for electric, natural gas and telecommunications restructuring/deregulation legislative efforts at both the state and federal level.

Harvill served as senior policy advisor to the Chairman of the Illinois Commerce Commission (1994-1995). In that role, he was the primary strategist to the Chairman for developing and implementing positions based upon the analysis of financial, economic, and public policy issues. He served as senior economist in the rate design section of the Illinois Commerce Commission (1992-1994). Harvill assumed commissionership May 14, 1998; current term ends January 2003; single.

Edward C. Hurley

Democrat; born 1954; Marquette University, Milwaukee, Wisconsin (B.S. Business Administration, 1976); The John Marshall Law School, Chicago, Illinois (Juris Doctor, 1980); Associate, Jares, Komosa, Burke and Shanahan, Chicago, Illinois (1980-1982); Assistant Illinois Attorney General (1982-1984); Hearing Examiner, Illinois Commerce Commission (1984-1991); Secretary, General Counsel, General Manager, Custom Coffee Service Corp., Chicago, Illinois (1991-1998); assumed Commissionership February 16, 1999; current term ends January 2004; single.

THE TELECOM YEAR IN REVIEW

During the past year, many of the Illinois Commerce Commission's actions were in response to the passage of the Federal Telecommunications Act of 1996 and changing market conditions for local telecommunications services. The Commission's determinations were guided by the policy in Section 13-103(b) of the Public Utilities Act that competition should be permitted to function as a substitute for certain aspects of regulation when consistent with the public interest. Notable events include the following:

- **Area Code Relief and Number Conservation Measures.** During 1999, the Commission granted the North American Numbering Plan Administrator's petition for approval of area code relief in the 312, 773, 708 and 630 area codes. These codes are located in the Chicago metropolitan area. The Commission approved the petition along with number conservation measures, such as number pooling. Number pooling was instituted in the 312 area code on August 16, 1999, in the 773 area code on August 30, 1999, and in the 630 area code on October 1, 1999. Number pooling will begin in the 708 area code after the Y2K quiet period, approximately February 1, 2000. Number pooling along with other conservation measures has been successful in extending the forecasted exhaust date for the 847 area code from between April 1998 and December 1998 to the second quarter of 2000. On August 10, 1999, the Commission filed a petition with the Federal Communications Commission for a waiver of its 10-digit dialing requirement until area code overlays are established in all of the Chicago area codes. In the petition the Commission express concern with implementing 10-digit dialing in the Chicago area in a piecemeal fashion because of dialing inequities between customers in neighboring area codes, prevents the Commission from implementing uniform dialing in the Chicago area, increase customer confusion and denies the Commission and telecommunication carriers additional time to develop and administer a comprehensive education program informing customers of the impending area code overlays and the corresponding need to dial 10 digits throughout the Chicago area. The Federal Communication Commission has indicated a decision relating to the petition is expected to be released in the first quarter of 2000.
- **SBC/Ameritech Merger.** On September 23, 1999, the ICC approved the merger of Ameritech and SBC. The merger was conditioned on the acceptance of numerous, substantive conditions. These conditions include requirements that network infrastructure investment increase, merger savings be allocated to ratepayers, shared transport be offered to CLECs, Ameritech's headquarters stay in Illinois, and OSS be improved. Other conditions include performance measurements, performance monitoring reports, charitable contributions, employment levels, community enrichment, and ADSL deployment.
- **GTE/Bell Atlantic Merger.** On Oct 29, 1999, the ICC approved the merger of GTE and Bell Atlantic. Through its various subsidiaries, GTE provides customers throughout the United States and in several foreign countries with a wide variety of communication services, including voice, video and data telephone services, wireless communication services, directory publishing and advertising, and Internet and internetworking services. GTE's local telephone

subsidiaries serve 22.3 million access lines in twenty-eight states, including Illinois. In addition, GTE is licensed in various states, including Illinois, to provide competitive local exchange service and long distance service. GTE also provides wireless services to its GTE wireless subsidiaries. GTE's annual operating revenues were \$23 billion in 1997. Bell Atlantic is a diversified telecommunications company that provides voice and data transport and calling services, network access, directory publishing and public telephone services. Bell Atlantic's telephone operating subsidiaries provide communication services to customers in the Northeast and Mid-Atlantic Regions comprising 13 states and the District of Columbia. Bell Atlantic's operating revenues in 1997 were \$30 billion, of which approximately 80 percent was generated by the telephone subsidiaries. The Commission approved the merger with twenty-eight conditions, including requirements that will improve OSS collaboration, reduce rates, and insure quality of service.

- Frontier Corporation/Global Crossing Merger. On September 28, 1999, the ICC approved the merger of Frontier Corporation and Global Crossing. Frontier Corp. provides local exchange service as an ILEC in Rochester and other markets in New York, as well as through 33 local exchange carriers in 12 additional states, including Illinois. Frontier subsidiaries are also qualified as competitive local exchange carriers in 29 states, and Frontier subsidiaries are authorized to provide intrastate interexchange telecommunications services in all 50 states and the District of Columbia. Global Crossing is building and operating a global fiber optic network for data, voice, video, and Internet transmissions. When completed, Global Crossing's communications network will span four continents, will address 80% of the world's international traffic, and will connect approximately 100 of the world's leading cities. The Commission approved the merger based on twenty-two conditions, including the requirements that employees and offices will remain in place to provide service to Illinois customers, and capital investments for maintaining and enhancing services and networks will be made.
- Interconnection Agreements. The ICC approved 39 interconnection agreements between Ameritech Illinois and competing carriers. These competing carriers have included GTE and many competitive local exchange carriers. These interconnection agreements have established interim rates for unbundled network elements as well as interconnection and collocation arrangements.
- Approval of the annual update to Ameritech Illinois' price caps consistent with the alternative regulation plan adopted in October 1994. This resulted in a \$34 million rate reduction. The total decrease in rates thus far for Illinois customers has been \$271 million.

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Introduction

The following report for 1999 was prepared to meet the requirements of the Public Utilities Act (PA-84-617). Section 13-801 of this Act states that “the Commission shall prepare and issue an annual report on the status of the telecommunications industry and Illinois regulation thereof.”

Section 13-801 contains five subsections ((a) through (e)) on which the Commission is asked to report. This report is divided into five main parts, one for each subsection of Section 13-801 that is to be addressed. This is consistent with the formats adopted in prior reports.

During 1999, the following persons (listed alphabetically) served as members of the Illinois Commerce Commission.

Brent S. Bohlen

Edward R. Hurley

Richard E. Kolhauser

Ruth K. Kretschmer

Terry S. Harvell

Richard L. Mathias

I. Section 13-801(a)--Review of Regulatory Decisions

(a) A review of regulatory decisions and actions from the preceding year and a description of pending cases involving significant telecommunications carriers or issues.

In 1999, the Illinois Commerce Commission continued its efforts to balance effective oversight with minimal regulatory burden to those companies under its jurisdiction. Section 13-103 of the Public Utilities Act mandates that the Commission balance the concerns of consumers with the competitive interests of the telecommunications companies it regulates. The Illinois Commerce Commission issued approximately 525 orders in docketed cases relating to telecommunications and considered 1,345 individual company tariffs.

Significant orders that were approved in 1999 include the following:

Docket 97-0259: Illinois Bell Telephone Co. Annual Rate Filing For Noncompetitive Services. (Final Order issued June 29, 1998). On April 1, 1998, Illinois Bell submitted its Fourth Annual Rate Filing in compliance with Dockets 92-0448/93-0239, which established an alternative form of regulation for the noncompetitive services of Illinois Bell. Approval of the annual filing resulted in a \$19 million rate reduction for Illinois customers.

Docket 98-0200/98-0537: Sandra A. Walden, Larry E. Barregarye, Roxanne L. Goldsby, Shelly Heideman, and William Dunkel vs. GTE North Incorporated Complaint as to the GTE usage sensitive local charge. Citizens Utility Board vs. GTE North Incorporated complaint for an investigation and revision of the usage sensitive service rates and designated home calling areas of GTE North Incorporated under Articles IX, X and XIII of the Public Utilities Act. (Final Order issued September 28, 1999). This proceeding involved two complaints filed against GTE. Complaining Parties contended that the combination of the small rural exchange areas and the imposition of per-minute charges for extended area service (EAS) calls resulted in unduly high bills. They also claimed that revenues from USS rates exceeded the revenue collected under the flat rates they replaced. Complaining Parties requested that per-minute charges for EAS calls be eliminated, and that the per-call charge for EAS be set at 4.6 cents per call (on peak) for residential customers, thereby expanding the untimed calling zone. In the Final Order, the Commission determined, among other things, that residential customers shall be offered a per-call option for ("EAS") priced at 11 cents per call during peak periods (and 5.5 cents per call off-peak), with no per-minute charges. This matter is presently on appeal.

Docket 98-0555: SBC Communications, Inc. et al. application for approval of reorganization of Ameritech Illinois. (Final Order issued September 23, 1999). This is the SBC/Ameritech merger docket. The Commission's Order found that the merger met the conditions set forth in Section 7-204(b) (1) through (7) of the Public Utilities Act. In addition,

the Commission conditioned its approval of the merger upon the merged company meeting 122 commitments, as well as other conditions meant to foster competition. In the event the merged company fails to meet the foregoing, that company will be subject to liquidated damages.

Docket 98-0866: GTE Corporation and Bell Atlantic Corporation joint application for approval of a corporate reorganization involving a merger of GTE Corporation and Bell Atlantic Corporation. (Final Order issued October 29, 1999). The Commission approved a reorganization under which GTE Corporation ("GTE") will become a wholly owned subsidiary of Bell Atlantic. GTE is the parent of two incumbent local exchange carriers operating in Illinois, GTE North Incorporated and GTE South Incorporated. The reorganization was approved subject to 28 conditions. The conditions include a rate reduction at merger closure of \$10.03 million, a requirement that GTE make an infrastructure investment in Illinois of no less than \$270 million over the first three years after the merger, and a requirement that Bell Atlantic/GTE aggressively compete to provide local service to customers in Chicago without diminishing service to GTE's current customers.

Docket 99-0237: Global Crossing Ltd., Frontier corporation, Frontier Communications of Illinois, Inc., Frontier Communications of Lakeside, Inc., Frontier Communications of Mt. Pulaski, Inc., Frontier Communications of De Pue, Inc., Frontier Communications of Orion, Inc., Frontier Communications - Midland, inc., Frontier Communications - Prairie, Inc., and Frontier Communications - Schuyler, Inc. joint Application for approval of the reorganization of Frontier Communications of Illinois, Inc., Frontier Communications of Lakeside, Inc., Frontier Communications of Mt. Pulaski, Inc., Frontier Communications of De Pue, Inc., Frontier Communications of Orion, Inc., Frontier Communications - Midland, Inc., Frontier Communications - Prairie, Inc., and Frontier Communications - Schuyler, Inc. in accordance with Section 7-204 of the Public Utilities Act and for all other appropriate relief. (Final Order issued September 28, 1999). In this proceeding the Commission approved an agreement and plan of merger between Global Crossing LTD and Frontier Corporation which constitutes the reorganization under Section 7-204 of the Public Utilities Act. While Global Crossing has no operations in Illinois, Frontier Corporation is the ultimate parent of eight incumbent local exchange carriers ("ILEC") operating in Illinois. Altogether the eight ILECs serve 18,904 access lines. The reorganization was approved subject to 22 commitments made by Global Crossing LTD and Frontier Corporation.

Docket 99-0379: MCIMetro Access Transmission Services, Inc. (an MCI WorldCom Company) -vs- Illinois Bell Telephone Company d/b/a Ameritech Illinois, Ameritech Services, Inc. and Ameritech Information Industry Services complaint pursuant to Section 13-514 and 13-515 of the Public Utilities Act alleging that Ameritech knowingly impeded the development of competition in the local exchange market in Illinois. (Final Order issued September 22, 1999). MCIMetro Access Transmission Services, Inc., (an MCI WorldCom Company ("MWCOM" or "MCI") filed this complaint pursuant to Sections 13-514 and 13-515 of the Public Utilities Act. The Commission entered an Order which denied MCI's complaint, subject to certain conditions. That Order found in part that the Interconnection Agreement between MCI and Ameritech requires MCI to submit move, add, change and

disconnect (MACD) orders by electronic means; that MCI is not permitted to utilize the provisions of a tariff in a manner that is directly contrary to the terms of the parties' Interconnection Agreement; that MCI is not being treated differently than other similarly situated carriers; and that Ameritech's actions do not constitute violations of Section 13-514. This matter is presently on appeal.

Docket 96-0404: Investigation concerning Illinois Bell Telephone Company's compliance with Section 271(c) of the Telecommunications Act of 1996. (Final Order issued January 21, 1999). The Commission opened this docket in order to properly discharge its role as consultant to the FCC and as an information gatherer for the Department of Justice on matters related to Illinois Bell Telephone Company's compliance with Section 271(c) of the Act. Because much of the information the Commission seeks is in the possession of Illinois Bell as well as the other carriers which have been granted certificates pursuant to Section 13-405 of the Illinois Public Utilities Act, those entities were made parties to this proceeding. Testimony was filed during November and December of 1996. Hearings were held during the week of January 13-17, 1997. The Hearing Examiner's Second Proposed Order was filed on June 20, 1997. The Hearing Examiner's Third Proposed order was entered on December 15, 1998.

Docket 98-0770/0771: Illinois Bell Telephone Company Proposed Modifications to terms and conditions governing provision of special construction arrangements. (Final Order issued October 26, 1999). IBT proposed modifications to its tariffs to implement a new policy intended to charge customers for the construction of distribution and entrance facilities to and within new developments. The ICC suspended the noncompetitive tariff and investigated the competitive tariff filings. These tariff filings were rejected by the ICC.

Docket 98-0847: Lockheed Martin IMS Petition for Approval of NPA Relief Plans 312, 630, 708 and 773 NPAs. (Final Order issued June 30, 1999). Lockheed requested that ICC approve area code relief plans in the form of all-service overlays for the 312, 630, 708 and 773 NPAs since, according to assignments and forecasts, NPA exhaust in these area codes is imminent. The ICC ordered that number pooling shall be implemented in the 312, 630, 708 and 773 NPAs. The timetable for implementation and activation of number pooling in the 630 NPA was July 15, 1999; in the 312 NPA by August 16, 1999; and in the 773 NPA by October 1, 1999.

Docket 99-0182: Illinois Telecommunications Access Corporation (ITAC) petition for annual line charge determination pursuant to 83 Ill. Adm. Code 755.500. (Final Order issued May 5, 1999). ITAC requested to decrease the line charge from the current level of 8 cents per subscriber line and 0.8 cents per centrex line to 6 cents per subscriber line and 0.6 cents per centrex line. The ICC ordered that line charge be reduced accordingly.

Senate Bill 700 Complaints

Docket 99-0525: McLeodUSA Telecommunications Services, Inc. and Ovation Communications, Inc. d/b/a McLeodUSA -vs- Illinois Bell Telephone Company d/b/a Ameritech Illinois complaint under Sections 13-514 and 13-515 of the Public Utilities Act

concerning the imposition of special construction charges and seeking emergency relief pursuant to Section 13-515(e). (Final Order issued December 20, 1999). The Commission granted the complaint in part. The Order found that, in certain circumstances, Ameritech's assessment of special construction charges, when provisioning unbundled network elements to Ovation, constituted double recovery and violated Section 13-514 of the Act.

Docket 99-0465: Rhythms Links, Inc. vs. Illinois Bell Telephone Company (Ameritech Illinois). (Final Order issued December 2, 1999). Complaint as for expedited relief pursuant to Section 10-108, 13-501, 13-504 and 13-515 of the PUA. Rhythms contended that Ameritech's failure to offer collocation violated Section 13-514 of the PUA since it unreasonably delays interconnections to another telecommunications carrier, unreasonably impairs the efficiency of services used by another telecommunications carrier and has a substantial adverse effect on the ability of another telecommunications carrier to provide service to its customers. The ICC determined that the complaint is premature and not ripe for adjudication. In addition, even if the ICC could decide the complaint, the ICC could not grant the relief requested by Rhythms.

Docket 99-0379: MCImetro Access Transmission Services, Inc. vs. Illinois Bell Telephone Company (Ameritech Illinois), Ameritech Services, Inc. and Ameritech Information Industry Services. (Final Order issued September 22, 1999). Complaint pursuant to Sections 13-514 and 13-515 of the PUA alleging that Ameritech knowingly impeded the development of competition into the local exchange market in Illinois. The Commission concluded that MCI's complaint be denied.

During 1999, the Commission entered orders approving 39 negotiated agreements. In addition, the Commission granted certificates of exchange service authority to 71 carriers to provide local exchange service in competition with the incumbent LECs.

In addition to docketed cases, regulatory changes can be made through companies' tariff filings, either as a result of a Commission action in a docket or as company-proposed changes to their tariffs. After Staff and Commission review, the Commission allowed 1,345 tariff filings to take effect in 1999 without investigation or suspension. Some of the more important filings follow:

GTE NORTH INCORPORATED - Flat Rate Option for Extended Area Service. On January 25, 1999, the company established a new option for residential customers for Extended Area Service (EAS). This option will rate all calls placed in association with an existing EAS route at \$.15 per call regardless of duration and time-of-day. On October 5, 1999, the company filed a supplemental tariff reducing the flat rate to \$.11 per call pursuant to the final order in Dockets 98-0200/98-0537, Consolidated, a complaint case against GTE North regarding the company's usage sensitive local charges.

AMERITECH ILLINOIS - Reclassification of Service Order, Line Connection and Restoral of Service Charges. On March 30, 1999, the company filed to reclassify Service Order, Line Connection and Restoral of Service Charges for various business service offerings as

competitive. The filing also reclassified these charges for residential services in 19 exchanges throughout the State. Following staff's review of the filing, it was determined that the company was unable to comply with all the guidelines for reclassification of these service. A subsequent filing dated August 5, 1999, moved these services back to the noncompetitive tariffs.

AMERITECH ILLINOIS - Talking Call Waiting Service. On June 17, 1999, the company introduced a new optional Advanced Custom Calling feature entitled Talking Call Waiting. With this new feature, subscribers will receive an audible tone followed by a mechanical announcement of the name of the calling party.

AMERITECH ILLINOIS - Collocation Tariffs. On October 5, 1999, the company expanded the collocation portion of its tariff. Specifically, additional collocation options for Competitive Local Exchange Carriers ("CLECs") were offered in this tariff, including shared and cageless collocation options. Staff was of the opinion that the tariff failed to meet specific FCC requirements and recommended that the filing be suspended. The matter was suspended and set for hearings in Docket 99-0615.

AMERITECH ILLINOIS - Carrier Credit and Collection Rules. On October 5, 1999, the company filed tariffs for the establishment of credit and collection rules and regulations for competitive local exchange carriers in six basic areas: (1) application of rules; (2) payment rules; (3) advanced payment and deposit rules; (4) disconnection intervals; (5) customer notice requirements; and (6) dispute resolution.

For complete documentation on the above docketed cases and tariff filings or other 1999 Commission actions, please contact the Chief Clerk's Office in either of the Commission's Springfield or Chicago locations. A description of pending telecommunications cases is provided in Section IV.A of this report.

II. Section 13-801(b)--Description of the Telecommunications Industry in Illinois

- (b) Description of the telecommunications industry in Illinois and changes or trends therein, including the number, type and size of firms offering telecommunications services, whether or not such firms are subject to State regulation, telecommunication technologies in place and under development, variations in the geographic availability of services and in prices for services, and penetration levels of subscriber access to local exchange service in each exchange and trends related thereto.

This section addresses three main areas of the telecommunications industry: the local exchange market, the interexchange market, and alternative carriers.

A. Local Exchange Market

1. Number, Size, and Location of Carriers

The local exchange market is served by local exchange carriers. To differentiate between the LECs, the term "incumbent LEC" will be used to identify LECs providing switched local service prior to December 31, 1993, and the term "new LECs" will identify those that received their switched authority after that date. Currently, 52 incumbent LECs provide local exchange service in Illinois. By the end of 1999, 54 new LECs had received Certificates of Exchange Service Authority to offer switched local exchange services, however, many will initially resell local service. Another 17 companies received Certificates of Exchange Service Authority to provide resold local exchange services. Thirteen small telecommunications companies that are mutual or cooperative companies are not subject to regulation by the Commission.

The LECs can also be differentiated according to size. Large carriers are generally defined as those LECs providing 35,000 or more access lines. Five LECs--Ameritech Illinois, GTE North, Gallatin River, GTE South, and ICTC (now known as McLeodUSA) --are designated as large LECs. The new LECs include companies such as CoreComm Illinois, Inc., Flat Rock Communications, Inc., Golden Harbor of Illinois, Inc., Home Telenetworks, Inc., and Ripple Communications, Inc.

The largest Illinois LEC is Ameritech Illinois, which serves most of the larger urban population centers in Illinois. Ameritech Illinois provides about 5.8 million access lines, approximately 82.3

percent of all access lines in Illinois.¹ Included in this figure are approximately 4.2 million residential service lines and 1.6 million business service lines. GTE North is the next largest company and provides about 783,000 access lines, approximately 11.1 percent of the access lines in Illinois. Included in this figure are approximately 658,000 residential service lines and 124,000 business service lines.

The concentration of access lines directly corresponds to population density. The densest concentration of access lines falls within Ameritech Illinois' service territory. This explains why Ameritech Illinois, although its geographic service territory is smaller, serves more than seven times as many access lines as GTE North, the largest Illinois telephone company in terms of geographic area and number of exchanges.

LECs that provide fewer than 35,000 subscriber access lines are subject to reduced regulatory oversight, as provided by Section 13-504 of the Public Utilities Act as amended in 1995. These small LECs are permitted to implement rate changes, change competitive classifications of services, and establish new services and rates therefor upon 30 days notice to the Commission and all potentially affected customers. Such rate changes are not subject to investigation by the Commission unless a complaint is received from a telecommunications carrier that is a customer of the LEC, or 10% of the LEC's potentially affected subscribers. If, after notice and hearing, the Commission finds that a rate change is unjust or unreasonable, in whole or in part, the Commission has the power and duty to establish rates, charges, classifications, or tariffs it finds to be just and reasonable. This provision relating to small local exchange carriers assumes informal community pressure will prevent unnecessary rate increases. This provision also reduces the regulatory costs that are incurred by the company--which can be passed on to the ratepayers--and the Commission in traditional rate cases.

2. LEC Services

LECs offer dozens of services ranging from "plain old telephone service" to custom calling and high speed data transmission. There is, however, a general disparity between the offerings of the Illinois LECs. The five large companies that serve the more concentrated markets tend to offer a greater range of services than do the 47 smaller incumbent companies that serve the more rural markets.

The range of local exchange services compiled for this annual report includes basic service, touch-tone service, custom calling services, advanced custom calling services, extended area service, and intraMSA toll. The section below briefly describes each service. A Commission survey detailing the current rates for basic and custom calling services is included as Appendix A. These rates are as of October 1, 1999, as reported by the companies.

¹Numbers reported are totals of all Illinois revenue-producing access lines, excluding PBX trunks, centrex lines and other access lines.

a. Basic Service

Local voice communications or "basic telephone service" is the most essential telecommunications service. In general, all other telecommunications services depend on the provision of basic service. Basic service or "plain old telephone service" is composed of two major components: access and usage.

Basic Service--Access: Basic access, which is indicated by a dial tone, is the subscriber's connection to the public telecommunications network. LECs provide access via access lines or what are sometimes known as local loops, that run from the subscriber's premises to the LEC's central office switch in each exchange.

Basic access service is offered in two service classifications: business and residential. Historically, business subscribers have been charged a higher rate for access, because it was perceived that businesses derived greater value from access due to their greater reliance on telephone service when compared with residential subscribers. However, the facilities and underlying costs of providing network access to business and residential subscribers are not appreciably different.

Basic Service--Usage: "Usage" is the initiation of communications by a subscriber via the network. The number of calls completed by a subscriber, the duration of those calls, the distances the calls are transmitted, and the time and day the calls take place are all aspects of a subscriber's basic service usage.

In Illinois, two rate structures are currently employed by incumbent LECs for determining charges for basic service. Under the flat rate service structure, a class of customers (residential or business) is charged a single flat fee for both access and local usage each month. Under this format, a subscriber will be charged the same amount each month, regardless of the subscriber's actual telephone usage. Each of the 47 small incumbent telephone companies, GTE South, and ICTC offer flat rate service in all of their exchanges. Ameritech Illinois and GTE North offer flat rate service in some of their exchanges. Currently, about 373,483 access lines, approximately 5.3 percent of all Illinois access lines, are billed under a flat rate.

Local measured service (LMS), also referred to as Usage Sensitive Service, is the most common rate structure employed in Illinois. In an LMS rate structure, the access and usage components of basic service are separated. LMS subscriber bills contain at least two billing components: (1) a flat access fee, and (2) a usage charge individually computed for each subscriber according to that subscriber's local usage during the billing period. LECs measure and charge for usage based on the number, duration, and distance of calls and on the time of day and day of the week the calls are placed.

Ameritech Illinois provides mandatory LMS in all exchanges other than nonconforming offices. About 5.7 million access lines, approximately 99 percent of all Ameritech Illinois business and residential access lines, are billed under an LMS rate. GTE North provides mandatory LMS to

about 748,000 access lines, approximately 95.5 percent of all GTE North access lines. Gallatin River Communications provides LMS to about 70,600 access lines, approximately 85 percent of its access lines. Statewide, approximately 6,653,215 access lines, or about 94.7 percent of all Illinois business and residential access lines, receive service under an LMS rate.

b. Touch-tone Dialing

Touch-tone calling service, for many years considered an enhanced service, has essentially become a basic service today. Touch-tone provides for the origination of telephone calls through the use of telephones equipped with pushbuttons that, when pushed, generate distinctive tones. Touch-tone service is quickly becoming a necessary function since it is sometimes the only method of accessing interactive services such as home banking and voice mail.

Except for certain smaller LECs that offer touch-tone as part of basic service, and Ameritech Illinois which eliminated touch-tone charges as part of their rate restructuring plans, the incumbent LECs apply an additional charge for the service. As with basic service rates, touch-tone rates are sometimes differentiated between residential and business customer classifications, with rates being higher for businesses. Like basic service, the technology and underlying costs of providing touch-tone to residential and business customers are identical; the rate differential is based entirely on historical perceptions of value.

c. Custom Calling Services

Subscribers' basic service calling abilities can be expanded through the use of custom calling services. Services referred to as custom calling services include call waiting, call forwarding, three-way calling, and speed calling. The largest LECs offer these services in most of their exchanges. A few of the small LECs are unable to offer custom calling services in their exchanges due to technological limitations.

In exchanges where LECs offer custom calling services, such services are priced individually or grouped together in packages at rates *additional* to the basic service rates. Depending on the area and LEC in question, custom calling service rates can differ between residential and business customer classes, but generally they are priced the same for all users. As with basic service and touch-tone service, such rate disparities are based on historical perceptions of value and not actual cost differences associated with provision of the service. The underlying facilities and costs of providing custom calling services to residential and single-line business customers in the same exchange are identical.

Comparative rates for custom calling services appear in Appendix A. Descriptions of the individual services are provided below.

Call Waiting: Call waiting allows a subscriber to accept calls while engaged in a

telephone conversation. When using the telephone, a subscriber with call waiting will hear a tone signal indicating that another call has been dialed to the subscriber's number. By pressing the telephone cradle hook once, the subscriber can place the first call on "hold" and receive the second call. Upon finishing with the second call, the subscriber may resume the first call by pressing down the cradle hook a second time.

Call Forwarding: With call forwarding, telephone calls dialed to a subscriber's assigned telephone number can be automatically transferred to any other telephone number capable of receiving telephone calls.

Three-Way Calling: Three-way calling allows a subscriber to dial two phone numbers and conduct a conference call with the other two individuals.

Speed Dialing: Speed dialing allows a subscriber to access specified telephone numbers by dialing abbreviated codes of one, two, or three digits. Speed dialing services vary in the number of telephone numbers subscribers may program. Many LECs offer more than one speed dialing package, with varying storage capacities. Because of the wide range of speed dialing program capacities, comparisons between rates could be misleading.

d. Advanced Custom Calling Services

Advanced custom calling services are those services that are made possible through a technology called Signaling System Seven (SS7). SS7 was initially developed to improve the efficiency of the public switched network through the installation of a separate data network superimposed upon the existing network. The purpose of this data network is to process call setup information such as a called party's phone number. This data network allows carriers to "look ahead" of a call to determine if the call can be completed, e.g., if the called party's number is not busy. Unless the data network determines the call can be successfully processed, network facilities are not allocated for that call, thus freeing those facilities up for other calling.

A brief description of advanced custom calling services is provided below. Tariffed rates for these services, where offered, are listed in Appendix A.

Automatic Call-Back: This service allows a customer to return the last incoming call. If the number of the returned call is busy, a queuing process begins where the idle/busy status of the line is continually tested. When the line of the called number becomes idle, the customer will be notified by a distinctive ring.

Repeat Dialing: This service allows a customer to automatically redial the number associated with the last outgoing call placed by the customer. If the redialed number is busy, a queuing process begins where the idle/busy status of the line is continually tested. When the line of the redialed number becomes idle, the customer will be

notified by a distinctive ring.

Distinctive Ringing: This service allows a customer to specifically designate several telephone numbers for distinctive ringing. When the customer receives a call from the line associated with one of the designated numbers, the customer's phone will ring distinctively--notifying the customer that they are receiving a call from a line associated with one of the specifically designated numbers.

Call Screening: This service allows a customer to block calls from several telephone numbers. Blocked calls are forwarded to a recorded announcement that will indicate that calls are not being taken at this time.

Call Trace: This service will allow a customer to automatically trace an incoming telephone call. The customer will not be able to identify the calling number; rather, the calling number will be obtained by the telephone company. The number may then be provided to law enforcement agencies.

Caller Identification: This service delivers the calling party's phone number and, possibly, the billing name, to a display device on, or attached to, the phone of the called party. The Commission, in its Order in Dockets 90-0465 and 90-0466 (consolidated) which approved the implementation of Caller ID services, also ordered that free per-call blocking be provided. Individuals who do not want their calling number to appear on the display device of a Caller ID subscriber can dial *67 (touch-tone phone) or 1167 (rotary dial phone) and prevent the delivery of their calling number.

e. Extended Area Service

Extended area service (EAS) is the offering of flat-rate or reduced rate usage sensitive service between nearby exchanges. Usually, these exchanges are separate communities. Under flat rate EAS, all subscribers in a given community pay for the ability to call the nearby community under a flat rate. Note that this charge applies whether or not the service is actually used by a subscriber. The subscriber who uses the service heavily (i.e., makes many calls to the neighboring exchange) is charged the same amount as the subscriber who does not use the service at all. EAS routes can be either one way or two way (one way EAS permits one community to call the other for a flat fee, but not vice versa; two way EAS permits both communities to call each other with an additional flat rate charge on both communities' phone bills). This service is declining in Illinois; the Commission last approved an EAS route approximately 20 years ago, and, over the past several years, has been attempting to phase out EAS. In many areas EAS has been replaced by "pick-a-point" or LMS offerings.

Pick-a-point is an optional calling service for residential subscribers. Essentially, pick-a-point allows a subscriber to make volume purchases of intraMSA, interexchange service to a point, or points, specified in the pick-a-point plan. A residential subscriber choosing pick-a-point for intraMSA long distance calls between his or her home and the county seat, for instance, would be able to place a specified amount of calling to that point for a specified flat fee, which is in addition to the local service rate. The subscriber pays only if he or she has ordered

pick-a-point. The Commission has not ordered carriers to offer pick-a-point; rather, it is up to the local carrier to offer the service, and it is not available from all carriers or between all points.

f. IntraMSA Interexchange Service

In addition to local exchange services, LECs also provide the bulk of intraMSA, interexchange telephone service. This service was previously provided through the Primary Toll Carrier (PTC) for the MSA. This concept was ordered by the Commission in 1986. The LEC with the most significant toll presence in each MSA was designated the PTC for that MSA. Each PTC developed and filed toll rates, coordinated the toll networks, and acted as the carrier of last resort in the MSAs for which it is responsible. As ordered by the Commission in Docket 94-0096, staff filed a report with the Commission on October 4, 1995, outlining Staff's opinion on the elimination of Primary Toll Carrier arrangements. On December 20, 1995, the Commission approved in Docket 95-0503 a stipulation that replaced primary toll carrier arrangements with customer chosen toll carriers.

3. LEC Trends and Changes in Market Structure

Having reviewed the number, size, and geographic territories of the LECs, and having compared the various rates and the geographic availability of the most frequently used LEC services, this report will now discuss general conditions affecting the supply and pricing of telecommunications local exchange services in Illinois.

a. Local Exchange Competition

Several actions taken by the Commission in 1999 were designed to facilitate and encourage competition in telecommunications markets. This section discusses major past, present, and future Commission actions that address competitive issues.

On September 22, 1989, the Commission granted the first certificate of exchange service authority to a non-monopoly carrier. Teleport Communications Group, a competitive access provider (CAP), was granted the authority to provide direct, nonswitched private line services and resold nonswitched exchange services in the Chicago local exchange service area served by Illinois Bell (now Ameritech Illinois).

In 1991, other CAPs, including Diginet and MFS, were granted similar certification which included authority to offer those services in twelve additional exchanges besides the Chicago exchange. On April 29, 1992, the Commission granted Teleport the authority to extend its geographic service area to include thirty exchanges within the Illinois Bell and Centel service areas with the additional authority to resell all local exchange services and to provide nonswitched and resold interexchange services.

In 1994, the Commission broadened the authority of the CAPs further by giving MFS and Teleport's affiliate, TC Systems, the authority to provide facilities-based local exchange switched services--along with the services that they were previously certified to provide--in those portions of MSA-1 served by Ameritech Illinois and Centel.

These carriers are considered "new LECs," a term that differentiates them from the incumbent LECs, but makes no implication about any service or quality differences. MCI Communications was given service authority similar to TC Systems' and MFS's in 1994, but is unique in that it will offer its services to residential customers over Jones Lightwave Ltd.'s cable television network in a trial limited to 2 years and 1000 customers in Wheaton, Illinois. Thirty-four certificates of exchange service authority were granted during 1997. Approximately 20 other certificates are pending.

After receiving its first Certificate, Teleport filed a complaint with the Commission against Illinois Bell in Docket 90-0444 alleging Illinois Bell's failure to provide interconnection to Teleport on the same terms and conditions that Illinois Bell provides for its own operations. This matter was resolved when Illinois Bell filed its Optical Interconnection Service tariff for high-speed, digital, non-switched, private line and special access service for three central offices in downtown Chicago. Thereafter, Teleport filed a request in Docket 90-0425 for an Order making the tariff effective for all exchanges for which it had authority. This matter was eventually resolved by a stipulated agreement which provided interconnection of private line and special access facilities in the requested exchanges in a manner that is technically, economically and administratively equivalent to the service which Illinois Bell provides to its own private line and special access services. This stipulated agreement was approved in the Third Interim Order in Docket 90-0425 which also directed Commission Staff to conduct workshops to investigate the issues surrounding local competition and interconnection. The Commission Staff's report was presented to the Commission on July 1, 1992. The Commission on October 25, 1992, in the Sixth Interim Order in Docket 90-0425 initiated Docket 92-0398, a rulemaking proceeding to address interconnection standards in Illinois.

On April 6, 1994, the Commission adopted interconnection rules that provided in part for physical collocation in the absence of an agreement between the LEC and the interconnecting carrier. In June of 1994, the U.S. Court of Appeals for the District of Columbia Circuit in Bell Atlantic Telephone Cos. v. FCC, Appeal No. 92-1619, etc. (consolidated) set aside the FCC's rules providing for physical collocation as the preferred method of interconnection. Following the ruling, in August of 1994, the FCC published new rules adopting virtual collocation as the preferred method for interconnection. This set up an inconsistency between FCC rules and the Commission's rules for interconnection. On November 2, 1994, the Commission opened Docket 94-0480 to correct the apparent inconsistencies in switched and special access interconnection rules between the interstate and intrastate jurisdictions resulting from Bell Atlantic Telephone Cos. v. FCC and the FCC's subsequent rule changes.

Shortly after MFS received its switched exchange authority, it filed a complaint against Ameritech Illinois for refusing to provide certain inter-carrier arrangements that MFS said Ameritech Illinois has made available to other previously authorized independent local exchange carriers, i.e., adjacent incumbent LECs. MFS's complaint was quickly followed by

similar complaints filed by TC Systems and MCI Communications.

While the new LECs demanded that the Commission require Ameritech Illinois to make the arrangements necessary for them to exercise their exchange authority, Ameritech Illinois maintained that these arrangements should be resolved in its Customers First docket. This docket, which was consolidated with an AT&T petition regarding local exchange competition, addressed unbundling of the local loop, end office integration, intercompany compensation, intraMSA presubscription, and other issues related to local competition.

In 1994, the Commission adopted rules to implement Section 13-505.1 of the Public Utilities Act requiring imputation tests for switched interexchange services and for local competitive services. These rules were adopted to protect competitors by attempting to insure that the companies providing noncompetitive inputs to competitors charge them the same rates that those companies explicitly or implicitly charge themselves.

On April 7, 1995, the Commission established a policy framework and policies in order to address the emergence and development of local exchange competition with the adoption of Ameritech's Customers First Plan in Illinois. The Commission required Ameritech to interconnect with competing local service providers, unbundle its local exchange facilities, allow other carriers to resell its residential services and allow customers to presubscribe to the carrier of their choice for short-haul toll services.

The Commission has previously filed numerous comments in FCC dockets and urges the FCC to continue to facilitate the development of competition in telecommunications, when in the public interest, as a means of increasing service options for consumers at a reasonable price. The FCC has issued orders in several dockets that will increase competition at the interstate level and have ramifications at the intrastate level. The FCC's actions in number portability and number administration, in expanding interconnection through virtual collocation, and establishing rules to govern the newly emerging personal communications services (PCS) market will all work toward making telecommunications services a more competitive and, thus, more price efficient market.

In future comments on FCC proceedings, this Commission will continue to recommend the encouragement of competition in the provision of telecommunication services when in the public interest. The Commission's experience with the telecommunications industry in Illinois has led to the conclusion that the long distance industry is increasingly competitive and the FCC should continue to make every effort not only to maintain that competition, but to continue to encourage it in the local exchange market as well.

b. Alternative Regulation in Illinois

On November 9, 1989, the Commission approved an Illinois Bell statewide rate restructuring plan. The proposal contained a mechanism for earnings sharing between the company and ratepayers that departed from traditional rate-of-return regulation. This alternative regulatory

plan was reversed by the Illinois Second District Appellate Court on October 3, 1990, which stated that the Commission did not have the authority to adopt the alternative regulatory plan. In addition, the Court concluded that an explicit allocation of common expenses, which had not been made, was required under Section 13-507. The Court remanded the latter issue to the Commission and the Commission issued its Order on Remand on November 4, 1991. The Second District Court of Appeals affirmed the Commission's Order on Remand on January 6, 1993, including the Commission's approval of cost of service studies and a method for allocating common expenses.

In 1992, the Public Utilities Act was modified to include a clear requirement in Section 13-507 for an allocation of common expenses and a new Section 13-506.1 which permits the Commission to approve an alternative regulatory plan with a number of requisite findings. The new Section 13-506.1 requires the Commission to consider, when evaluating an alternative plan, whether it will: (1) reduce regulatory delay and costs; (2) encourage innovation in services; (3) promote efficiency; (4) facilitate the broad dissemination of technical improvements to all classes of ratepayers; (5) enhance economic development of the State; and (6) provide for fair, just, and reasonable rates. In addition, seven findings are required: the plan must (1) be in the public interest; (2) produce fair, just, and reasonable rates for telecommunications services; (3) respond to changes in technology and the structure of the telecommunications industry that are, in fact, occurring; (4) constitute a more appropriate form of regulation based on the Commission's policy goals in Section 13-103 and this section; (5) specifically identify how ratepayers will benefit from efficiency gains, cost savings, and productivity improvements; (6) maintain the quality and availability of telecommunications services; and (7) not unduly or unreasonably prejudice or disadvantage any particular customer class, including other carriers.

On December 1, 1992, Illinois Bell filed a petition to regulate rates and charges of its noncompetitive services under an alternative form of regulation (Docket 92-0448), which was subsequently consolidated with Docket 93-0239. Docket 93-0239 was a complaint filed by CUB for an investigation and reduction of Illinois Bell's rates under Article IX of the Public Utilities Act. Docket 92-0448 was decided by the Commission on October 11, 1994, resulting in Ameritech Illinois' noncompetitive services being regulated under a indexed price cap regime with no earnings sharing and an initial reduction in rates. Annual updates to the price caps and their results are shown below.

<i>Annual Update</i>	<i>Result</i>	<i>Date</i>
1 st	\$39 million rate reduction	July 1995
2 nd	\$31 million rate reduction	June 1996
3 rd	\$54 million rate reduction	June 1997
4 th	\$19 million rate reduction	June 1998
5 th	\$34 million rate reduction	June 1999

c. Subsidy Reduction in Telecommunications Services

Historically, the nationwide telephone network developed a financial structure containing significant subsidy flows between different services. As an example, long distance rates subsidized local rates. With telecommunications services becoming more competitive, it is more difficult for "monopoly" revenues to fund these subsidies, thereby creating pressures to either phase out the subsidies or fund them from a different source. The Commission has been active in addressing these problems.

(1) Cost of Service Requirements

In 1994, the Commission implemented the new requirements in the Public Utilities Act regarding imputation tests for competitive services and switched interexchange services (Docket 92-0210). In 1995, it also finalized rules implementing a long run service incremental cost standard, and an explicit allocation of common expenses between competitive and noncompetitive services (Docket 92-0211). The intent of these rules is to provide standards for determining whether certain services are anti-competitively priced and whether competitive services are receiving subsidies from noncompetitive services. As a result of these rules, the Commission determined that Ameritech Illinois' payphone services were being subsidized and required other rates to be reduced by \$16.5 million.

(2) Link Up and Lifeline Assistance

For information about the Link Up and Lifeline Programs, please refer to Chapter III, Section A, Universal Services.

d. Technological Trends

Installation of digital and analog electronic switching systems (ESS) requires large initial capital expenditures. These expenditures have been justified by reduced labor and maintenance costs over the life of the equipment. Furthermore, ESS switches allow provision of higher quality basic service and the offering of custom calling services. (Custom calling services cannot be offered from non-electronic central offices.) The conversion to digital switching also allows LECs to implement LMS. Additionally, electronic switching systems allow for the provision of equal access arrangements providing consumers a wide range of IXC alternatives. Finally, expanded use of digital central offices and the use of software such as the Advanced Intelligent Network (AIN) releases will enable LECs to develop and offer new services that may be currently unimagined.

Continued deployment of high capacity fiber optics in both local and long distance networks facilitates the increasing demand for broadband services which allow voice, data, and video communications to be merged onto one medium in a cost-effective manner. In past annual

reports, the Commission has mentioned that highly sophisticated services such as ISDN are looming on the horizon. Today this service can now be obtained by residential customers as well as business customers through Ameritech Illinois' ISDN tariffs. ISDN, which until recently was viewed as high tech but impractical for most users, is now recognized as a valuable tool for businesses as well as residential users who wish to work from home or "telecommute."

In addition, new services are being made available through the continued implementation of SS7 technology throughout the national public switched network. Originally developed as a means to improve network efficiency and decrease call set-up time, it was soon discovered there were many customer applications made possible by SS7. Services such as Caller Identification, Call Trace, Automatic Call-back, Distinctive Ringing, and Call Screening are all made possible through the implementation of SS7.

In response to a Commission survey regarding current and planned deployment of switch technology, the following information was provided. The following table describes the status of switching technology for the largest Illinois LECs and for all Illinois LECs in aggregate.

COMPANY	DIGITAL OFFICES	ANALOG OFFICES	PERCENT CURRENTLY DIGITAL	ANALOG TO DIGITAL BY 2001	PERCENT DIGITAL BY 2001
GALLATIN RIVER	24	0	100%	0	100%
GTE NORTH	478	0	100%	0	100%
GTE SOUTH	46	0	100%	0	100%
AMERITECH IL	347	13	96%	1	96.7%
ICTC	37	0	100%	0	100%
REMAINING COMPANIES	223	0	100%	0	100 %
STATEWIDE	1,155	13	98.9%	1	99%

The small LECs are 100 percent digital. All of the large LECs that still had non-digital switches in 1999 increased the number of deployed digital switches in the past year. In addition, companies have identified additional switches to be converted from analog to digital technology. This trend is seen in the planned conversion figures, which indicate that one additional switch is to be converted by 2001. The information provided to the Commission suggests that 99 percent of the LEC switches in the state will be digital by 2001.

An important new network capability that is technically possible due to digital switching systems is number portability, although significant development work must be done. Full number portability would allow any subscriber to change his/her service location, provider, or premises and retain the existing telephone number. Number portability will be a significant transfer of control over the telephone number from the phone company to the individual customer. The telecommunications industry currently utilizes number portability with 800 services. An 800 service database is used whenever a customer dials an 800 number, to determine which carrier the call should be routed to for completion. Similar methods are being developed to allow number portability for other numbers, with the most immediate application being service provider portability, which would allow customers to take their existing number with them if they switch local service providers.

The Commission determined in the "Customers First" Order that local number portability should be implemented in Illinois and directed that an Industry Working Group develop solutions for Illinois. The Industry Working Group met regularly to guide the development of number portability. The number portability solution being developed would be expandable to other types of number portability and would allow expansion to wireless carriers when feasible for their networks. The Commission approved the basic technological approach in March 1996.

During 1999, the Commission granted the North American Numbering Plan Administrator's petition for approval of area code relief in the 312,773,708 and 630 area codes. These codes are located in the Chicago metropolitan area. The Commission approved the petition along with number conservation measures, such as number pooling. Number pooling was instituted in the 312 area code on August 16,1999, in the 773 area code on August 30,1999, and in the 630 area code on October 1,1999. Number pooling will begin in the 708 area code after the Y2K quiet period, approximately February 1, 2000. Number pooling along with other conservation measures has been successful in extending the forecasted exhaust date for the 847 area code from between April 1998 and December 1998 to the second quarter of 2000. On August 10,1999, the Commission filed a petition with the Federal Communications Commission for a waiver of it's 10-digit dialing requirement until area code overlays are established in all of the Chicago area codes. In the petition the Commission express concern with implementing 10-digit dialing in the Chicago area in a piecemeal fashion because of dialing inequities between customers in neighboring area codes, prevents the Commission from implementing uniform dialing in the Chicago area, increase customer confusion and denies the Commission and telecommunication carriers additional time to develop and administer a comprehensive education program informing customers of the impending area code overlays and the corresponding need to dial 10 digits throughout the Chicago area. The Federal Communication Commission has indicated a decision relating to the petition is expected to be released in the first quarter of 2000.

The FCC auctioned Personal Communications Services (PCS) licenses during 1995, as discussed in Section II.C. This new wireless technology became available to customers in 1996. PCS may compete for local exchange customers along with the growing number of wireline competitors. New hybrid wireless/wireline applications are being developed, e.g., a

handset that acts as a landline cordless phone when near its base attached to the wireline network, but which functions as a cellular phone when away from the base.

e. Subscribership in Illinois

Section 13-301(b), enacted by the Universal Telephone Service Protection Law of 1992, requires that the Commission "establish a program to monitor the level of telecommunications subscriber connection within each exchange in Illinois, and report the results of such monitoring and any actions it has taken to maintain or recommends to be taken to maintain and increase such levels." For purposes of this report, "telecommunications penetration" is defined as the percentage of households that have telecommunications service available within the home. A high level of subscription is commonly referred to as "universal service."

Performance of a penetration study has inherent difficulties. Major difficulties in performing this study are the direct consequence of the requirement to perform the study on an exchange-specific basis. In Illinois, there are 972 local telephone exchanges served by 52 different incumbent companies. To comply with Section 13-301(b), it was necessary for the Commission to gather two types of information for each exchange. The first type of information, the number of residential telephone access lines in each exchange, was easily obtainable. The other information, the number of households in each exchange, was more difficult to obtain and had to be derived from census data, other population data, or estimates (for some companies the number of households was not supplied at all). In each case, the Commission has had to rely on the data provided by each local exchange company.

In performing the penetration study, the Commission attempted to address the above problems. Each of the LECs (including the new LECs) in Illinois was sent a four-item questionnaire and was instructed to tabulate all data as of October 1, 1999.

A summary of the data responses is listed below for Ameritech Illinois and GTE North. As indicated previously, these two companies serve in excess of 93 percent of customers in Illinois. The numbers shown are approximations.

	Ameritech Illinois	GTE North
No. Residential Access Lines	4,138,000	659,000
No. of Residential Households	3,600,000	689,000
No. of Residential Households with at Least One Access Line	3,479,000	619,000
Estimated Market Penetration	96.6%	89.83%

Despite the imprecision of the numbers provided by some companies, they are fairly reliable in

their ability to indicate general trends. The responses show a range of penetration rates for individual companies from 64 percent to 100 percent. The most current FCC study of Illinois penetration (released October 1999) concluded that approximately 91.7 percent of all Illinois households have telephone service. The penetration rate for the entire U.S. is 94.4 percent according to FCC estimates.

f. LEC Entry into the InterMSA Market

The issue of LEC entry into interMSA toll began with an Ameritech Illinois petition before the FCC, its Customers First tariff filing before the Commission and a submittal to the U.S. Department of Justice. Ameritech proposed competition for local telephone service in return for a concurrent removal of the interMSA restriction in its Modification of Final Judgment (MFJ) Consent Decree.

Ameritech's submittal to the U.S. Department of Justice on December 7, 1993, requested that the Department of Justice support it in filing a motion for a temporary waiver from the MFJ's interMSA restriction so that it could implement a trial of interMSA traffic originating from Illinois and another state, later identified as Michigan.

In May of 1995, the Commission submitted comments to the U.S. District Court for the District of Columbia supporting the Department of Justice's Motion to grant Ameritech a waiver of the MFJ line of business restrictions which preclude Ameritech from providing interMSA telecommunications services. The Commission stated that a waiver of the MFJ restrictions for the purpose of a trial could lead to enhanced telecommunications choices for Illinois citizens in the Chicago LATA. The Commission also filed comments jointly with the Indiana Utility Regulatory Commission, the Michigan Public Service Commission, the Public Utilities Commission of Ohio, and the Public Service Commission of Wisconsin in support of the waiver.

The 1996 Act was enacted while the Department of Justice's Motion was still pending in the U.S. District Court. It replaced the MFJ restrictions with statutory requirements and procedures that Bell Operating Companies must follow in order to enter the interLATA market. It also removed the prior court restriction on GTE interMSA operations. The Commission conducted a Notice of Inquiry (Docket 96NOI-1) and initiated an investigation (Docket 96-0404) into Illinois Bell Telephone Company's compliance with Section 271(c) of the 1996 Act. Work in Docket 96-0404 continued in 1998. A third proposed order was entered on December 15, 1998, that recommended dismissal of this proceeding. A final order dismissing this proceeding was entered on January 21, 1999.

B. Interexchange Market

As previously outlined, local exchange services are telecommunications services between points within a single exchange and are predominantly the domain of the local exchange

carriers. In contrast, interexchange carriers provide service primarily between points in separate MSAs, i.e., interMSA interexchange service.² IntraMSA interexchange calls were previously routed to PTCs unless a customer dialed a five-digit 10XXX carrier access code to route the call to a specified IXC. Section II. A. describes how PTC arrangements were terminated in 1996, allowing increased intraMSA options. This section describes the existing carriers' interexchange service offerings and rates as well as the trends that continue to shape the interexchange market in Illinois.

1. Number, Type, and Availability of Carriers

As of January 1, 2000, 563 IXCs were authorized to provide long distance telecommunications services within Illinois. The level of entry into this market is substantial when compared to the 36 carriers reported in the Commission's "Annual Report on Telecommunications 1988."

A general distinction is made in Illinois between the provision of facilities-based interexchange service and the resale of interexchange services. Facilities-based IXCs own the long distance network facilities they use to provide interexchange services. Examples of such network facilities include switching systems, cables, satellites, fiber optics, and microwave radio transmission systems. While facilities-based carriers may also purchase or lease some of their transmission facilities from other carriers, they provide the majority of their services through their own network facilities.

Interexchange resellers, in contrast, do not own or operate their own long distance networks. Rather, resellers lease or purchase bulk volumes of transmission and/or switching capacity from facilities-based carriers and then resell interexchange service to individual customers. Because capacity unit costs incurred by resellers are below the unit price offered to smaller individual customers of the facilities-based carrier, the reseller is able to compete with the facilities-based carrier. The vast majority of the interexchange carriers initiating service in 1998 were resellers. A listing of facilities-based carriers and resellers can be found in Appendix B of this report.

AT&T Communications of Illinois, Inc. is the Illinois arm of AT&T that resulted from the 1984 divestiture of the AT&T Bell System.³ AT&T was the original provider of long distance service in the United States and was the sole provider of such service until MCI was certified to provide limited interstate service in the 1960s. All IXCs are required to obtain a Certificate of Service Authority and file intrastate tariffs with the Commission. As providers of competitive services, they are generally not subject to intensive rate regulation, but the Commission retains its general authority to handle complaints, investigate charges of unfair rates, and supervise company operations.

²The intraMSA interexchange market has been open to facilities-based IXC entry since January 1, 1987.

³Prior to divestiture, the AT&T long-distance subsidiary was known nationwide as "AT&T Long Lines."

AT&T is the largest IXC currently providing interexchange telecommunications services. MCI and Sprint are the next largest IXCs providing service in Illinois. Like AT&T, these two companies are facilities-based providers of national and international telecommunications services.

AT&T, MCI, and Sprint are all capable of transmitting telephone calls to any point in the United States and to points in many foreign countries. Most of the smaller IXCs also provide long distance service capable of transmitting calls to all points in Illinois and the United States. Some small IXCs, however, provide only limited calling between specified points.

2. Long Distance Service Rates

Since 1984, intrastate long distance rates in Illinois have dropped significantly. At this time, Illinois telephone subscribers enjoy intrastate long distance rates that are among the lowest in the United States. Detailed tariffed rates by the three major interexchange carriers in the state, AT&T, MCI, and Sprint, can be found in Appendix C of this report.

In addition to basic long distance services, IXCs offer several other interexchange services. Not surprisingly, AT&T provides the fullest range of services of any IXC. Other IXCs have steadily expanded their service offerings. At present, many offer operator services, and most provide WATS services. In addition, MCI and Sprint offer 800 services.

3. IXC Trends and Market Structure

In past years, the Commission has reported on continued efforts to eliminate the subsidization of local exchange services by long distance rates. These efforts have largely been achieved, and the Commission now is turning its attention to expanding competitive forces into other areas of the interexchange market. Specifically, the Commission's efforts have been concentrated in two areas: (1) intraMSA interexchange service and (2) participation in comments to the FCC regarding policy activities at that level.

The authority that the Commission has over interMSA interexchange service includes certification of facilities-based carriers and resellers for intrastate service and the requirement of all such service providers to file tariffs with the Commission for all intrastate services. Entry of Ameritech into the interMSA market is currently restricted by the 1996 Act and is discussed elsewhere in this report.

Since 1986, IXC resellers have been allowed to receive certifications to provide intraMSA interexchange services while facilities-based carriers have been granted entry since January 1, 1987. An important issue concerning the provision of intraMSA interexchange service is dialing arrangements. The Commission initiated a Notice of Inquiry (NOI) into this subject on November 24, 1987. On April 13, 1988, the Commission completed its NOI investigation by adopting a final report and created Docket 88-0091 in order to hold hearings. Based on the

record in Docket 88-0091, the Commission submitted a final report to the General Assembly on October 1, 1990. In this report, the Commission had two recommendations for the General Assembly regarding the issue of intraMSA dialing arrangements:

1. Existing intraMSA dialing arrangement restrictions should be maintained for the time being; and
2. Section 13-402 of the Act should be amended in order to delegate to the Commission direct regulatory authority over dialing arrangements.

In the rewrite of the Public Utilities Act in 1992, the General Assembly removed the prior restrictions on intraMSA dialing arrangements. The new language of the Act states that "[t]he removal from this Section of the dialing restrictions by this amendatory Act of 1992 does not create any legislative presumption for or against intra-Market Service Area presubscription or changes in intra-Market Service Area dialing arrangements related to the implementation of presubscription, but simply vests jurisdiction in the Commission to consider after notice and hearing the issue of presubscription in accordance with the policy goals outlined in Section 13-103."

From this language change, it is clear that the General Assembly authorized the Commission to consider changing this arrangement if it is in the public interest. Workshops were held on this subject in Docket 90-0425 during 1993, and parties raised the issue in Docket 92-0448. The Commission initiated a rulemaking on intraMSA presubscription on February 7, 1994 (Docket 94-0048). Ameritech also proposed a particular method of intraMSA usage subscription as part of its Customers First tariff filing. The Commission issued orders during 1995, requiring intraMSA presubscription. As of April 7, 1996, Ameritech Illinois had to allow intraMSA presubscription. All other LECs had to allow intraMSA presubscription as of November 1, 1996, as discussed elsewhere in this report.

C. Alternative Carriers

Mobile telecommunications services are generally considered as alternative services that complement or overlay services provided by wireline local exchange and interexchange carriers. As technology advances and competition accelerates, the line between traditional and alternative services and carriers is beginning to blur. This section addresses mobile carriers as well as customer-owned pay telephone service providers, operator service providers, and new local exchange carriers.

1. Mobile Telecommunications Services

Public mobile services include cellular services, the developing personal communications services (PCS), and other mobile services such as air-to-ground radio, offshore radio, and rural radio services. Private mobile services include services such as private dispatch systems.

State entry or rate regulation of private mobile services was preempted by a 1982 amendment to the Federal Communications Act.

Title VI of the federal Budget Reconciliation Act of 1993 amended Section 332(c) of 47 U.S. Code and enacted substantial changes in the regulation of mobile services, including a preemption of State entry or rate regulation of commercial mobile radio services, effective August 10, 1994. States may continue to regulate other terms and conditions of commercial mobile services. State regulation of entry or rates can continue only if a State petitions for and receives a waiver from the FCC based upon a showing that either (1) market conditions fail to protect subscribers adequately from unjust and unreasonable rates or rates that are unjustly or unreasonably discriminatory, or (2) market conditions exist whereby the commercial mobile service is a replacement for land line telephone exchange service for a substantial portion of the telephone land line exchange service within the State.

a. Cellular Services

Cellular carriers are currently providing service in all regions of Illinois (see list in Appendix D). There are currently 46 certified cellular telephone carriers. (Note that some of these carriers, while certified separately, are owned by the same parent company.)

The FCC divided the United States into two different types of cellular market areas known as Metropolitan Statistical Areas for urban areas of the country and rural statistical areas for rural settings. Cellular providers divide each market area into a number of smaller geographic areas known as cells. Located within each cell is a transceiver (transmitter/receiver) that transmits calls to and from mobile telephones within its transmission range. The transceiver is connected to LEC facilities for completion of cellular calls originating from or terminating to non-cellular customers. The transceiver in each cell operates using a subset of the 330 channels in the 50 MHz range of the frequency spectrum that the FCC has designated for cellular telephone service. Transceivers in contiguous cells use different subsets of channels. As a mobile telephone user moves out of the range of one transceiver, a contiguous cell begins to provide service to that customer.

Upon the development of cellular service regulation, the FCC granted certificates to two facilities-based carriers to provide cellular telephone service in each region. In each market area, the two facilities-based carriers split the frequency range with each transmitting over 25 MHz. There was originally a distinction between the two carriers such that one was a wireline telephone company and the other a non-wireline company. Since their original assignment, cellular licenses have been sold among various consortia and the wireline/non-wireline distinction between the two carriers has been largely obliterated.

In addition to the certified facilities-based carriers, the FCC permits resale of cellular service. These companies are referred to as resellers. They purchase telephone numbers from the certified carriers, sell and install mobile telephone equipment and bill their customers for cellular service. Resellers do not require certification by the Commission, but facilities-based

cellular providers are required to receive a Certificate of Service Authority and to file annual reports with the Commission. 83 Ill. Adm. Code Part 760 excludes facilities-based cellular providers from certain other statutory and regulatory requirements.

b. Personal Communications Services

Personal Communications Service (PCS) is a new wireless telecommunications technology that will utilize the radio spectrum in the two GHz range with six competitors in each service area. PCS will have an architecture similar to cellular service, except that each PCS cell will have a smaller coverage area than a cellular cell. Currently, no single technology has prevailed for the provision of PCS. It is expected that the market will eventually determine both the technology used as well as the service attributes. The FCC has issued several orders in CC Docket 91-253 governing the process for auctioning PCS spectrum licenses. The rules address eligibility of bidders, small business and minority-owned business bidders, and the auction process. The PCS auction, which began in 1994, consisted of three stages: narrow-band licenses, broad-band licenses, and broad-band licenses targeted for small business and minority-owned business bidders.

Ameritech Mobile Services succeeded in winning one of six narrow-band licenses allocated for the Midwest with a \$9.5 million bid. At the end of 1994, Ameritech Mobile Services completed a PCS trial in the Chicago Loop, which tested three separate PCS technologies.

In March 1995, AT&T Wireless and PCS Primeco (now Primeco Personal Communications), a consortium between US West, Nynex, Airtouch, and Bell Atlantic, won the two broadband PCS licenses for the Chicago market with bids totaling more than 750 million dollars. The Commission granted Certificates of Service Authority to both companies in 1996.

c. Other Mobile Services

Various radiotelephone services are available in most metropolitan areas. Unlike cellular telephone service, which has transmission facilities that can provide service to large areas and to a large number of customers at one time, other mobile telephone services are limited by their transmission facilities to a service area of approximately 25 miles in circumference and to a limited number of radio channels. As a result, the number of customers that can be served at one time is very small. In light of these limitations, many mobile telephone customers are migrating to cellular telephone service.

Section 13-203(b) of the Public Utilities Act excludes paging services from the definition of "telecommunications services" and thus precludes Commission regulation. Providers of public mobile services, as defined in Section 13-214(a), must obtain a Certificate of Service Authority and file tariffs and annual reports with the Commission. There are about seven companies providing regulated public mobile services in Illinois.

2. Customer Owned Pay Telephone Service

Docket 84-0442 addressed the provision of Customer Owned Pay Telephone Service (COPTS) in Illinois. A Commission Order entered on June 11, 1986, outlines the certification and regulatory procedures for COPTS providers in Illinois. The Public Utilities Act and Docket 84-0442 differentiate between providers of COPTS to non-public and public locations. Unlike providers in public locations, providers of COPTS in non-public locations require no certification from the Commission. The Order in Docket 84-0442 also requires that each individual or company providing one or more COPTS instruments in a public location shall be certified as a telecommunications carrier within the meaning of Section 13-202 of the Public Utilities Act. As certified telecommunications carriers, public COPTS providers must file annual reports and have tariffs on file with the Commission as required by the Public Utilities Act. Both non-public and public COPTS providers are required to provide 9-1-1 service.

In response to concerns regarding unusually high rates for operator assisted services as well as inadequate services and customer information provided by COPTS and Operator Service Providers (OSPs), a rulemaking proceeding (Docket 92-0275) was initiated through a Commission resolution adopted on July 22, 1992. The purpose of this rulemaking was to establish procedures concerning the rates, terms, and conditions applicable to COPTS and OSPs to ensure better information and protection for customers.

3. Operator Service Providers

Almost since the entry of the first operator service providers into the telecommunications market, consumers, telecommunications carriers, and regulators in Illinois and other jurisdictions have been confronted with a series of challenges regarding the provision of operator services. Numerous complaints have been received in both federal and state jurisdictions concerning operator service companies that have charged excessive rates, failed to properly identify themselves to end users, failed to allow end users to access alternative carriers, and "splashed"⁴ end users' calls to locations other than points of origination.

Both state and federal jurisdictions have responded to the mounting OSP complaints. In the federal jurisdiction, the FCC in May of 1989 requested comments on RM-6767, Practices,

⁴"Splashing" may occur if an OSP intercepts an end user's call and transfers that call to another carrier. Unless the OSP transfers the call to the second carrier's point of presence in the city where the call originated, the end user is likely to be billed from the point at which the second carrier received the call. For instance, if an OSP located in Los Angeles intercepted a call originated in Chicago for termination in New York, and then transferred the call to a different carrier's point of presence in Los Angeles, the new carrier would bill the end user for a call from Los Angeles to New York, rather than for a call from Chicago to New York.

Policies and Appropriate Regulatory Treatment of Alternative Operator Services. On December 21, 1990, the FCC issued a Further Notice of Proposed Rulemaking in CC Docket 90-313 in response to the Congressional passage and Presidential signing of the Operator Consumer Services Act of 1990. The Illinois Commission was an active participant in this proceeding citing the need for rules on OSPs. Among the requirements for OSPs and aggregators contained in the FCC's Report and Final Order issued April 15, 1991, are the following:

- Verbal identification of OSP before any charges could be incurred.
- Written identification of the presubscribed OSP must be on or near the payphone or aggregator phone.
- Disclosure upon request and at no charge, of the rates, collection methods and complaint processes to customers.
- Ensuring that customers do not pay more than the tariffed charges from presubscribed OSPs and that access is provided to 800 and 950 numbers.
- OSP must comply with various billing and operation rules such as "splashing," and no billing of customers for unanswered calls.
- Publication of OSP information, rates and alternative choices available to customers must be made reasonably available.
- After April 1991, all equipment must be manufactured with the ability to provide 10XXX access to IXC's of the customer's choice.
- Minimum standards for the handling of emergency calls.
- Requirements for the public dissemination by OSPs of information about the operator services industry.

In a companion docket, CC Docket 91-35, the FCC determined that 10XXX access must be provided from all aggregator payphones and set a schedule for unblocking. The FCC also determined that compensation to payphone owners for interstate access code calls was appropriate. Given that the technology was not yet available to enable measurement of per-call compensation, the FCC found that per-phone compensation of \$6.00 each month, to be divided among the carriers, was appropriate.

The Commission initiated a rulemaking to implement P.A. 88-382, which was signed into law on August 20, 1993 (Docket 93-0335). This legislation expanded the authority of the Commission over the OSPs and the rates, terms, and conditions of their service. The changed Section 13-901 of the Public Utilities Act required the Commission to adopt rules to address, at

a minimum, the following issues: (1) oral and written notification of the identify of the OSP and of availability of certain information; (2) restrictions on billing and charges; (3) restrictions on "call splashing" as defined in 47 C.F.R. Section 64.708; (4) access to other carriers via 800, 950 and 10XXX numbers; (5) appropriate routing of emergency calls; and (6) enforcement of rules by operator service tariffs and withholding payment of compensation for noncompliance. The legislation also directed the Commission to adopt rules that are compatible with corresponding FCC rules. On August 10, 1994, the Commission issued an Order in Docket 93-0335 that implemented intrastate rules for OSPs that are compatible with the FCC rules on interstate operator services that are listed above. The rule also sets limits on the rates that OSPs can charge for various services.

4. New Local Exchange Carriers

As indicated previously in this report, the Commission has seen increased activity in the area of local exchange competition. With the approval of interconnection tariffs filed by Ameritech Illinois and Sprint/Centel, the Commission has allowed competitive access providers to connect their facilities with these carriers' central offices and to provide alternatives to local exchange service to certain customers. In 1995, the Commission authorized four new LECs to provide switched, facilities-based local exchange service in the Chicago area in competition with Ameritech Illinois and Sprint/Centel. Thirteen more companies were authorized in 1996 to provide switched, facilities-based local exchange service in specific areas throughout the state or on a statewide basis. An additional 34 were authorized in 1997 and 47 more were authorized in 1998. In 1999, 54 companies were authorized to provide switched, facilities-based local exchange service.

The increased dependence upon telecommunications by banks, brokerage firms, and other large, geographically dispersed corporations has created the need for more high-speed networks and services. This fact coupled with service outages such as the Hinsdale fire and the AT&T outages in New York and San Francisco have increased the demand for alternatives and redundancy in local exchange service. The survivability of these new networks was demonstrated when the severing of a fiber optic ring in Chicago caused no more than a few milliseconds delay during which the data carried on the ring merely reversed direction.

The Commission has favored encouraging competition in the local exchange market. It has been a long-standing policy of this Commission to foster competition wherever it is in the public interest because effective competition is believed to be superior to regulation in its ability to set efficient prices, provide a greater array of services, and provide for improved service quality. The Commission will continue, as it has in the past, to encourage alternatives to local exchange carriers when it is in the public interest.

Other activities on both the state and federal level with regard to new local exchange carriers and CAPs can be found in Section I and Section II.A.3.a of this report.

III. Section 13-801(c)--Status of Compliance with the Public Utilities Act

- (c) Status of compliance by carriers and the Commission with the requirements of the Public Utilities Act.

Compliance with various Public Utilities Act requirements, including Sections 13-505.1, 13-507, and 13-901 is discussed elsewhere in this report. This section describes compliance with Sections 13-301, 13-407, 13-703, and 13-801.

A. Section 13-301--Universal Service

Section 13-301(a) requires that the Commission shall:

participate in all federal programs intended to preserve or extend universal telecommunications service, unless such programs would place cost burdens on Illinois customers in excess of the benefits that they would receive through participation.

In the past, the FCC operated two federal programs designed to preserve and extend universal telecommunications service to low income persons. They were the Subscriber Line Charge Waiver Program (SLCWP) and the Lifeline Connection Assistance Program. The SLCWP is a federal/state matching program, under which funds from the federal jurisdiction, up to the level of the federal subscriber line charge (currently, \$3.50), would be provided in an amount to be matched by funds from the State jurisdiction in order to reduce the monthly telephone bills of low-income subscribers. The SLCWP was in operation in Illinois from October 1990 through March 1991. The State matching funds were provided through a customer surcharge. In 1991, however, the Illinois General Assembly passed legislation that invalidated this funding method; the Commission repealed this program in March 1991.

The federal Lifeline Connection Assistance Program provided federal funds from the federal jurisdiction to offset the installation and connection fees charged to new subscribers who have been certified as low income. The federal program provided 50 percent of the installation charges up to a maximum of \$30.00 for each certified participant. The Lifeline Connection Assistance Program did not require the State jurisdiction to provide any matching funds. This program began in Illinois in August 1989, but was also repealed in March 1991.

On November 10, 1992, in Docket 91-0262, the Commission entered an order which adopted 83 Ill. Adm. Code 757, Telephone Assistance Programs. This Order reinstated the Lifeline Connection Assistance Program in Illinois effective March 1, 1993. The Order also established the Universal Telephone Service Assistance Program (UTSAP). UTSAP was mandated by Section 13-301.1 of the Public Utilities Act effective September 26, 1991, and is funded by

ratepayers' voluntary contributions.

The administrator of the UTSAP is the Universal Telephone Assistance Corporation (UTAC), a not-for-profit corporation of which all Illinois LECs are members. The UTAC Board is required under 83 Ill. Adm. Code 757.200(b) to annually petition the Commission to determine the amount (based on the amount of voluntary contributions) of supplemental assistance, if any, the LECs shall provide to each qualified subscriber.

UTAC filed its first petition in Docket 93-0332. An Order was entered on November 23, 1993, which determined that a one-time waiver of up to \$6.00 would be provided in addition to the 50 percent waiver of the installation charge. UTAC filed its second petition in Docket 94-0178. The Order entered July 7, 1994, increased the supplemental assistance from \$6.00 to \$10.00. The Commission approved the continuation of the \$10.00 waiver on May 3, 1995, in Docket No. 95-0004; on February 7, 1996, in Docket No. 95-0546; on April 23, 1997, in Docket No. 96-0372; and on June 17, 1998, in Docket No. 97-0556.

On May 6, 1998, in Docket No. 97-0631, the Commission entered an order revising 83 Ill. Adm. Code 757, implementing the federally mandated Link Up and Lifeline Programs. Link Up assists qualified low-income consumers by paying 50 percent (up to \$30) of the cost of installing local service in their principal place of residence. Link Up recipients will also receive a one year deferred payment schedule (with no interest or carrying charge) for the remaining installation charges up to \$200. Security deposit requirements which may be allowed by law are not included in the deferred payment scheduled. Approximately \$336,900 (year end projection) will be paid out from the voluntary contributions to support the state's portion of telephone installation for eligible consumers.

Lifeline provides up to \$5.25 in assistance towards the monthly charge for local telephone service for qualified low-income consumers. A service deposit will not be required if the consumer voluntarily elects toll blocking while initiating Lifeline service. If toll blocking is unavailable, the carrier may charge a service deposit. Low-income individuals who qualify for both programs must be a recipient of one of the following programs: Medicaid, Food Stamps, Supplemental Security Income (SSI), Federal Public Housing Assistance, or Low-Income Home Energy Assistance Program (LIHEAP).

On July 1, 1998, in Docket No. 98-0503, UTAC petitioned the Commission to increase the supplemental assistance to the remaining 50 percent of the installation charge for customers of eligible telecommunications companies. Non-eligible telecommunications companies, who do not participate in the federally funded Link-Up program, would received a 50% reduction in the installation charge. The Commission entered this order on September 23, 1998, effective October 23, 1998. Funding for the supplemental assistance comes from the voluntary contributions from Illinois ratepayers. In 1999, contributions on average equaled approximately \$89,000 per month.

Finally, on December 15, 1998, in Docket No. 98-0884, UTAC petitioned the Commission for determination of the amount and form of supplemental monthly assistance. In addition to the \$5.25 currently received from the federal Lifeline program, UTAC has recommended monthly

assistance in the amount of \$1.50. The federal Lifeline program will match by 50 percent any amount contributed by UTAC, resulting in qualified customers of eligible telecommunications companies receiving a total monthly assistance in the amount of \$7.50. Qualified customers of non-eligible telecommunications company would received monthly assistance in the amount of \$1.50. Funding for the supplemental monthly assistance comes from the voluntary contributions from Illinois ratepayers. The Commission entered this order on April 21, 1999, effective October 21, 1999. Approximately \$221,400 (year end projection) will be paid out from the voluntary contributions to support the state's portion of the monthly telephone bill for eligible consumers.

B. Section 13-407--Entry/Exit Analysis

Section 13-407 states that:

The Commission shall monitor and analyze patterns of entry and exit, and applications for entry and exit, for each relevant market for telecommunications services and shall include its findings together with appropriate recommendations for legislative action in its annual report to the General Assembly.

Information concerning entry and exit of carriers in the various markets is reported in Section II of this report. During 1999, the number of local exchange carriers increased from 178 to 249 as a result of the new LECs' Certificates of Exchange Service Authority; the number of interexchange carriers increased from 530 to 563; and 17 more COPTS providers were certified. The Commission has no recommendations at this time for legislative change concerning entry and exit.

C. Section 13-703--Telephone Services for Persons with a Disability

Section 13-703 (as amended) requires the Commission to:

- a) design and implement a program whereby the local exchange carriers provide a TTY (teletypewriter) to telephone subscribers who are certified as deaf, hard-of-hearing, or voice-disabled, or represent organizations serving the deaf, hard-of-hearing, or voice-disabled;
- b) design and implement a program whereby the local exchange carriers provide a telecommunications relay service, which is a communications link between those persons who use a TTY device and those persons who use a standard telephone;
- c) establish a surcharge for each subscriber line to offset the costs incurred by the local exchange carriers under this Section; and

- d) determine and specify the organizations representing the deaf, hard-of-hearing, and voice-disabled which shall receive a TTY pursuant to subsection (a).

Since the program's inception, 7,313 TTY's have been distributed. Among the recipients of these devices, 66 not-for-profit organizations have benefited from this program. During 1999, over 1.8 million calls were handled through the relay system. This brings the total number of calls processed since the service began in June 1990 to over 11.8 million.

On May 5, 1999, in Docket 99-0182, the Commission entered an order to lower the subscriber line charge from \$.08 per month per line for all subscriber lines and \$.008 cents per Centrex-type lines to \$.06 and \$.006, respectively. This line charge supports the TTY distribution and Telecommunications Relay Service Programs.

On December 4, 1998, in Docket No. 98-0870, ITAC filed a Petition for approval of an RFP for Telecommunications Relay Service. The Commission entered its order on January 21, 1999.

ITAC filed for approval of its contract and proposal for Telecommunications Relay Service on September 2, 1999, in Docket Nos. 99-0442 and 99-0443. The Final Order in this docket was entered on January 4, 2000.

D. Section 13-801--Annual Report

Section 13-801 of the Telecommunications Act states that:

The Commission shall prepare and issue an annual report on the status of the telecommunications industry and Illinois regulation thereof on January 31 of each year beginning in 1986...

By this report and twelve previous reports, the Commission fulfills the above requirement.

IV. Section 13-801(d)--Effects and Likely Effects of Illinois Regulatory Policies and Practices

- (d) Effects, and likely effects of Illinois regulatory policies and practices, including those described in this Article, on telecommunications carriers, service and customers.

In this section, four areas of impact on Illinois telecommunications policies are discussed. These areas are: issues pending in current dockets; competitive service provision by LECs; increased number of certificates approved for local exchange service providers; and 9-1-1 emergency telephone service.

A. Pending Issues

In addition to the orders that the Commission has entered this year, several important proceedings are underway which are expected to result in the adoption of new policies in 2000. Some of the significant dockets include:

- Docket 98-0396: Commission investigation of Illinois Bell Telephone Company's 96-0486/0569 tariffs. This is an investigation into IBT's compliance with the order in Docket 96-0486/0569 regarding tariffs and cost studies. A status hearing was held on November 18, 1999. Ameritech's direct testimony is due on January 14, 2000. Staff and intervenors' direct testimony is due on March 15. All rebuttal is due on April 19. A status hearing is scheduled for 4/26
- Docket 98-0397: Commission investigation of Illinois Bell Telephone Company's compliance with the order in 96-0486/0569 regarding the rates, terms and conditions applicable to poles, ducts, conduits and rights-of-way. A status hearing was held on November 18, 1999. IBT filed direct testimony on December 17, 1999. Staff and intervenors' direct testimony is due on February 18, 2000. IBT rebuttal is due on April 3. A status hearing is scheduled for 4/10.
- Docket 98-0252: Illinois Bell Telephone's 5 year review of its Alternative Regulation Plan. A status hearing was held on December 20, 1999. Issues in this case are to be identified and filed on January 19, 2000. Responses to issues are due on January 26. A status hearing is scheduled for February 2. Docket 98-0335: Ameritech Rate Rebalancing will also follow the schedule for Docket 98-0252
- Docket 97-0601/0602: Illinois Commerce Commission on its own motion. (Final Order issued). This docket is an investigation into implicit universal service subsidies in intrastate access charges. It is also an investigation into how these subsidies should be treated in the future. Staff direct testimony was filed on November 19, 1998. All other parties' direct testimony was filed on December 11,

1998. Rebuttal testimony was filed on February 17, 1999. Hearings are scheduled for March 3-5, 1998. RBOE is due on 1/14.

- Docket 96-0503: Illinois Commerce Commission on its own motion. This is an investigation into GTE North Incorporated's and GTE South Incorporated's Total Element Long Run Incremental cost studies and established rates for interconnection, unbundled network elements and transport and termination of traffic. The case was divided between wholesale and unbundled network elements. New cost studies will be filed soon.
- Docket 98-0860/0861: Commission investigation into Illinois Bell Telephone Company's reclassification of noncompetitive services as competitive. Ameritech's rebuttal is due on January 28, 2000. Staff and intervenors' rebuttal testimony is due on February 18. Ameritech surrebuttal testimony is due on March 3. Evidentiary hearings are scheduled for March 20-22.
- Docket 99-0315: Commission investigation into Illinois Bell Telephone Company's compliance with the order is Docket 97-0632. Staff and intervenors' rebuttal testimony is due on February 25. Ameritech's surrebuttal testimony is due on March 24. The evidentiary hearing is scheduled for April 13.
- Docket 99-0535: Part 791 Rulemaking. Staff direct testimony was filed on December 13, 1999. Intervenors' response to staff is due on February 2, 2000. Intervenors' response to each other is due on March 6. A status hearing is scheduled for March 13.
- Docket 98-0195: Commission investigation into certain payphone issues as directed on Docket 97-0225. Staff and intervenors' direct testimony is due on February 18, 2000. All rebuttal testimony is due on March 21. A status hearing is scheduled for April 5.
- Docket 99-0615: Commission investigation of Ameritech's collocation tariff. A workshop is scheduled for January 25, 2000. A status hearing is scheduled for February 2.

B. Competitive Service Provision

The classification of a service as competitive allows the provider greater flexibility in the pricing of the service. Carriers are able to decrease rates for competitive services upon notice to the Commission. They may increase rates for competitive interexchange services upon notice to the Commission and all affected customers. Competitive service rate increases must follow procedures for increases in noncompetitive service rates. The Commission may not suspend the offering of any service declared competitive. The Commission may, however, investigate the appropriateness of the classification and/or the rates of a competitive service. Following such an investigation, the Commission may find and order modifications in such classification. Services submitted and approved under the local companies' competitive service classification are listed in the table that follows:

COMPANY	COMPETITIVE SERVICES	
GTE NORTH	Message Toll Service Switched Data Service GTE Easy Savings Control Link Digital Channel Service GTE Between Friends Centranet Service ISDN	
GTE SOUTH	Message Toll Service Centranet Service GTE Easy Savings GTE Between Friends	
AMERITECH ILLINOIS	High Capacity Digital Service Integrated Information Network ISDN Centrex Centrex Switching Services Centrex Service (Basic) Custom High Capacity Service IntraMSA 800 Service Packet Switching Network Wide Area Networking Service Broadband Analog Service Ameritech Fiber Distributed Data Interface Service	Host Interconnect Service LAN Interconnect Service Toll Restrict Area Wide Networking Service Payphone Services Ameritech Customized Video Service Business Usage Service Residence Usage Service Private Line Directory Assistance and Information Call Competition Anytime Rate Calling Plan Construction Charges for

	Automatic Meter Reading Speed Calling	Developments
ICTC	Centrex Service Automatic Call Distribution Prairie Learning Connection Distance Learning Network Service Voice Messaging Service	
GALLATIN RIVER COMMUNICATIONS	Centrex High Capacity Digital Intralata Toll Digital Data Service ISDN Service Payphone Service	

C. *Increase in Number of Local Exchange Service Providers*

As reported earlier in this annual report, 54 new local exchange service providers have received authority to provide switched, facilities-based local service in Illinois.

The Commission, in its decisions to certify new LECs, anticipates that competition will result and will translate into less costly and improved service for customers. Further discussion of this issue can be found elsewhere in this report.

D. *9-1-1 Emergency Services*

The number 9-1-1 is a "Universal Emergency Telephone Number" designated for public use throughout the United States. In 1975, the Illinois General Assembly, recognizing the need for 9-1-1 services in Illinois, passed Public Act 1092 which established the state 9-1-1 program. Under the program, communities and counties are able to establish and operate 9-1-1 emergency telephone service upon Commission approval. The 9-1-1 Act was amended in 1987 to provide municipalities and counties with a means to fund 9-1-1 systems by imposing a surcharge on the telephone bills of local exchange carrier customers who live in the area served by the 9-1-1 system. However, the communities may impose such a surcharge only if approved by local referendum, except for municipalities with a population over 500,000, who may impose a surcharge up to \$1.25 without the referendum requirement. Since enactment of this funding mechanism, 85 counties and 164 municipalities in Illinois have passed referenda for the implementation and/or upgrade of a 9-1-1 system.

The Telecommunications Division of the Commission is responsible for administering the 9-1-1 program. The 9-1-1 Program disseminates information concerning the benefits of 9-1-1 systems and assists local units of government in developing, designing, and implementing 9-1-1 systems that meet the unique requirements of individual communities. From January 1, 1999, to December 31, 1999, the Commission granted Orders of Authority to Operate or Amending Orders to 12 9-1-1 systems. Presently, 98% of the state's population and 76% of the state's land area are served by 9-1-1 systems which consist of 13 Basic and 189 Enhanced 9-1-1 Systems.

The Commission's 9-1-1 Program Staff continues to work with public interest groups, local government, and the telecommunications industry to resolve technical issues with respect to Private Branch Exchanges (PBX), centrex type service, competitive local exchange carriers, local number portability requirements for dealing with hearing impaired, telecommunications services for the handicapped with 9-1-1 systems, et al. Furthermore, the Commission Staff continues to work with all parties to resolve the issues surrounding providing statewide wireless 9-1-1 telecommunications service.

The 83 Illinois Administrative code Part 725 (Standards of Service Applicable to 9-1-1 Emergency Systems) was adopted in 1979 and amended most recently in 1996. The structural and technological advances in the telecommunications industry have prompted the

Staff to consider additional revisions to the Code Part. As a result, numerous workshops have been held to listen to the concerns of representatives from the industry, 9-1-1 systems and Staff. When the informal workshops are no longer productive or when all of the issues have been addressed, the Commission will initiate a rulemaking to formally adopt revised rules. In addition, the Emergency Telephone System Act was amended requiring the Commission to set standards concerning private business switch and enhanced 9-1-1 requirements. Three workshops were held and Staff initiated an emergency rulemaking in Docket 99-0667. The Commission approved the emergency rules for private business switch service on December 15, 1999. The Commission is expected to finalize this rule by May 2000.

Finally, legislation concerning wireless 9-1-1 implementation and funding was passed in Illinois during the 1999 veto session. This legislation requires the Commission to set standards for 9-1-1 service as well. Staff will begin holding workshops and devising a rule to address this issue.

V. Section 13-801(e)--Recommendations for Legislative Change

(e) Recommendations for legislative change which are adopted by the Commission and which the Commission believes are in the interest of Illinois telecommunications customers.

The Commission's legislative agenda for the first year of the 92nd General Assembly is currently being formulated. A detailed discussion of specific proposals under consideration would be premature at this time.